

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water rates in
Marion County by C.F.A.T. H2O, Inc.

DOCKET NO. 100126-WU
ORDER NO. PSC-11-0366-PAA-WU
ISSUED: August 31, 2011

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING APPLICATION FOR RATE INCREASE
AND
FINAL ORDER REFUNDING INTERIM RATES AND APPROVING A FOUR-YEAR RATE
REDUCTION

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for our actions requiring an interim refund of interim rates and approving a four-year rate reduction, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

Background

C.F.A.T. H2O, Inc. (C.F.A.T. or Utility) is a Class C utility providing water service to approximately 221 water customers in Marion County. C.F.A.T. is in a water use caution area of the St. Johns River Water Management District. Water rate base was last established for the Utility in 1994.¹

On September 28, 2010, C.F.A.T. filed its application for the rate increase at issue in this docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the simple average period ended December 31, 2009.

¹ See Order No. PSC-94-0701-FOF-WS, issued June 8, 1994, in Docket No. 931080-WS, In re: Application for transfer of Certificate Nos. 552-W and 481-S in Marion County from THE RESOLUTION TRUST CORPORATION to C.F.A.T. H2O, Inc. in Marion County. (While rate base was established in this Order, an authorized return on equity was not set for the Utility.)

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FPSC-COMMISSION CLERK

By Order No. PSC-10-0739-PCO-WU, C.F.A.T. was granted an interim rate increase designed to generate annual water revenues of \$86,882.² This represents a revenue increase on an annual basis of \$42,792 (97.06 percent). The Utility requested final rates designed to generate annual water revenues of \$95,079. This represents a revenue increase of \$51,500 (118.18 percent).

By letter dated June 1, 2011, the Utility waived the statutory 5-month deadline for this case through August 9, 2011. This Order addresses C.F.A.T.'s requested final rates. We have jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., we determine the overall quality of service provided by a utility by evaluating three separate components of water operations. These components are the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by us from customers are reviewed and the Utility's compliance with the Florida Department of Environmental Protection (DEP) is considered.

Quality of Utility's Product and Operational Condition of the Plant

A field investigation of the service area was conducted by us on March 29, 2011. The water facilities appeared to be operating normally. The Utility installed a 200,000 gallon ground storage tank in 2007, with the intent of providing fire flow to areas that may be developed in the future. In addition, three new high service pumps were installed for additional reliability and all of the manual read water meters were replaced with new automated read meters. According to the DEP, the system is currently in compliance with DEP rules and regulations. Based on our review, it appears that the quality of the drinking water delivered to the customers and the operational condition of the water facilities are satisfactory.

The Utility's Attempt to Address Customer Satisfaction

We received letters from 18 customers addressing concerns related to poor water quality and the amount of the rate increase. However, there were no complaints on our Complaint Tracking System (CATS). A customer meeting was held on April 28, 2011 in Ocala, Florida. A representative of the Utility, staff, and two Commissioners were present. One customer attended and expressed concerns about the rate increase, inadequate notice of the meeting, and the quality of the water. We explained the rate making process to her. According to the customer, when she paid her water bill on April 19, 2011, she inquired about the meeting and was informed that the notice of the meeting had already been mailed to all customers. The Utility indicated that notices were mailed to all customers and provided an affidavit that the notice was mailed. In addition, the Utility gave the customer a copy of the notice during her visit to the office. The customer also described the presence of sediment in the water and air pockets within the system. The Utility representative explained that the water contains calcium.

² See Order No. PSC-10-0739-PCO-WU, issued December 20, 2010.

A review of reports filed with DEP regarding total dissolved solids, including calcium, indicates that the Utility meets DEP secondary drinking water standards. Regarding air pockets in the system, the Utility indicated that when air is noticed in the system, appropriate measures are taken to eliminate air intrusion by using the air release valve on the hydropneumatic tank. In light of the foregoing, we find that the Utility’s attempt to address customer satisfaction shall be considered satisfactory.

Summary

In summary, the Utility is current in all of the required chemical analyses and treatment standards. Furthermore, the Utility appears to be addressing customer concerns satisfactorily. Therefore, we find that the overall quality of service provided by the Utility is satisfactory.

Audit Adjustments to Rate Base and Net Operating Income

Based on audit adjustments agreed to by the Utility, the adjustments to rate base and net operating income shall be made as set forth in the table below.

<u>Audit Finding</u>	<u>Plant</u>	<u>Accum. Depr.</u>	<u>CIAC</u>	<u>Accum. Amort. of CIAC</u>	<u>Operation & Maintenance (O&M) Expense</u>
Finding No. 1 – <u>Adjustment to reflect:</u> Commission-Ordered Adjustments, Unsupported Plant, Out-of-Period Items, Utility Amounts, and Retirements	(\$25,880)	\$24,247	\$0	\$0	\$0
Finding No. 2 – <u>Adjustment to reflect:</u> Commission-Ordered Adjustments	0	0	(10,512)	(756)	0
Finding No. 4 - <u>Adjustment to reflect:</u> Non-Utility Amounts and Unsupported Expenses	0	0	0	0	(2,862)
Total Audit Adjustments	<u>(\$25,880)</u>	<u>\$24,247</u>	<u>(\$10,512)</u>	<u>(\$756)</u>	<u>(\$2,862)</u>

Used and Useful Percentages

Rule 25-30.4325, F.A.C., provides that the used and useful (U&U) percentage for a water treatment plant is determined by dividing the peak customer demand, less excessive unaccounted for water, plus fire flow, and a growth allowance by the firm reliable capacity (FRC) of the wells. For systems with storage facilities, the FRC is based on 16 hours of pumping and the units are referenced in gallons per day (gpd).

Water Treatment Plant (WTP)

The C.F.A.T. water treatment system has two wells that are each rated at 250 gallons per minute (gpm). The raw water is injected with liquid chlorine, discharged into a 200,000 gallon ground storage tank, then into a hydropneumatic tank, and channeled into the distribution system.

The Utility did not include a U&U calculation in its initial application. Additional information filed on January 5, 2011, included an analysis showing that the water treatment plant and storage facilities are 99.26 percent U&U. The Utility relied on a peak day demand of 64,000 gpd, fire flow of 120,000 gpd, excess unaccounted for water of 373 gpd, and a firm reliable capacity of 185,000 gpd to arrive at 99.26 percent U&U for the WTP. The Utility requested that the water treatment plant be found 100 percent U&U because there are no vacant lots and the system is built out.

The peak day of 142,300 gallons, reflected in the Utility's initial application, occurred on June 23, 2009. We reviewed the Utility's Monthly Operating Reports (MORs), and found that the June 23 flows represented a combination of flows for three days. The next peak days during the test year occurred on July 25, 26, and 27, 2009, when flows of 91,000 gpd were reported. Pursuant to Rule 25-30.4375(7), F.A.C., the peak day is the single maximum day in the test year where there is no unusual occurrence. Therefore, we find that 91,000 gpd shall be used as the peak day. According to revised information from the Utility, 10.074 million gallons of finished water were produced in the test year and 9.224 million gallons of water were sold. Therefore, the unaccounted for water for the system is less than 10 percent of the water produced.

The Utility's FRC is based on the capacity of the smaller of its two wells. The Utility provided several documents showing conflicting information as to the capacities of the two wells. We relied on the Utility's May 27, 2011, submittal showing that the wells are rated at 250 gpm each. Therefore, pursuant to Rule 25-30.4325(6), F.A.C., the FRC of the wells, excluding the largest well, is 240,000 gpd.

The Utility made upgrades to the plant in 2007 in anticipation of providing fire flow to future development in the service area; however, the Utility's fire flow capacity is currently available at a single fire hydrant in the service area. The Utility included a fire flow demand of 120,000 gpd (1000 gpm for 2 hours) in its U&U calculation. The required flow for the single fire hydrant is 501 to 999 gpm as adopted by the Marion County Board of County Commissioners to comply with the National Fire Protection Association 291 Recommended Practices for Fire Flow Testing and Marking of Hydrants adopted by Rule 69A-3.012, F.A.C. Due to the fact that the fire flow capacity is only available to a single general service customer, and plant additions were made in anticipation of future development, we find that fire flow capacity of 60,120 gpd (501 gpm for 2 hours) shall be used.

The Utility did not include a growth projection in its U&U calculation. However, a review of information from the Utility indicates that there has been growth of 2 ERCs per year for the past 5 years, except in 2007, when there was negative growth. As indicated above, the Utility does anticipate future development as evidenced by its installation of a 200,000 gallon

ground storage tank for fire flow. In addition, we disagree with the Utility's position that there are no vacant lots. There is vacant land at several locations within the service territory available for development. Therefore, we find that a growth allowance of 2 ERCs per year for five years or 4,194 gpd shall be included in the U&U calculation, pursuant to Section 367.081(2), F.S.

Based on the above analysis, we find that the water treatment plant shall be considered 65 percent U&U based on a peak day of 91,000 gpd, fire flow of 60,120 gpd, growth of 4,194 gpd, and firm reliable capacity of 240,000 gpd.

Ground Storage Tanks

Rule 25-30.4325(8) and (9), F.A.C., provide that the U&U percentage for a storage tank is determined by dividing the peak demand by the usable capacity of the tank. An elevated tank is considered 100 percent usable. A ground storage tank is considered 90 percent usable if the bottom of the tank is below the centerline of the pumping unit and 100 percent usable if the tank is constructed with a bottom drain and there is no other limiting factor. A hydropneumatic tank is not considered usable storage.

In the filing, the Utility requested that its storage capacity be considered 100 percent U&U. The 200,000 gallon ground storage tank was installed in 2007. Pursuant to Rule 25-30.4235 (9)(b), F.A.C., the ground storage tank has a usable capacity of 90 percent or 180,000 gallons in this case. The U&U calculation for the tank is made by using a peak day of 91,000 gpd, growth of 4,194 gpd, fire flow of 60,120 gpd, and a usable capacity of 180,000 gpd. Therefore, we find that the ground storage tank shall be considered 86 percent U&U.

Water Distribution System

The U&U calculation for the water distribution system is based on the number of ERCs connected to the system divided by the capacity of the system. Consideration is given for growth.

The Utility indicated that the distribution system should be considered 100 percent U&U. Because there are no vacant lots within the development that the distribution system was designed to serve, we find that the water distribution system shall be considered 100 percent U&U.

Summary

Based upon the analysis above, we find that the water treatment plant shall be considered 65 percent U&U, storage shall be considered 86 percent U&U, and the water distribution system shall be considered 100 percent U&U. Accordingly, rate base, depreciation expense, and property taxes shall be reduced by \$73,770, \$5,055, and \$169, respectively.

Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class C utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The Utility has properly

filed its allowance for working capital using the one-eighth of O&M expenses method. We find that adjustments to C.F.A.T.'s O&M expenses are necessary. As a result, we find that working capital of \$5,054 shall be approved. This reflects a decrease of \$855 to the Utility's requested working capital allowance of \$5,909.

Appropriate Rate Base

Consistent with other approved adjustments, the appropriate rate base is \$288,414. The schedule for rate base is attached as Schedule No. 1-A. The adjustments to rate base are shown on Schedule No. 1-B.

Return on Equity

The return on equity (ROE) included in the Utility's filing is 10.85 percent. Based on the current leverage formula approved in Order No. PSC-11-0287-PAA-WS and an equity ratio of 3.84 percent, we find that the appropriate ROE is 11.16 percent.³ We find an allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

Cost of Capital

In its filings, the Utility requested an overall cost of capital of 6.28 percent. C.F.A.T.'s capital structure consists of long-term debt, common equity, customer deposits, and shareholder loans. We find adjustments to the company's filed capital structure are necessary.

First, in Audit Finding 3, our auditors reduced long-term debt by \$3,200 to remove debt which was paid-off. In its response to the audit, the Utility did not object to this adjustment.

Second, we find that C.F.A.T.'s common equity balance shall be set to zero because the Utility's general ledger reflects negative equity for 2008 and 2009. The company included \$15,419 related to monies loaned to the Utility by its shareholders. In its response to the audit, C.F.A.T. asserted these monies were loaned to the Utility by its shareholders when needed and they plan on being paid back. We find that the monies loaned to C.F.A.T. by shareholders are essentially additional paid-in capital and shall be treated as common equity. Thus, we approve a common equity balance of \$15,419.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2009, we approve a weighted average cost of capital of 5.91 percent. This represents a 37 basis points reduction from C.F.A.T.'s requested overall cost of capital of 6.28 percent. Schedule No. 2 details our approved overall cost of capital.

³ See Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Pro Forma Expenses

In its filings, the Utility requested pro forma expense increases of \$1,763 for salaries, \$360 for healthcare costs, and \$1,664 for bad debt expense. Healthcare costs have and will continue to significantly increase each year and that the requested healthcare costs of \$360 are immaterial in nature. Accordingly, we find the requested increase for healthcare costs is reasonable. However, we find adjustments are necessary for C.F.A.T.'s pro forma salary and bad debt expense increases.

Pro Forma Salary Increase

The requested salary increase represents an increase of approximately 21 percent (\$1,763 divided by historical salaries of \$8,400). We find that, in light of the economic climate in Florida and throughout the U.S., a 3-percent increase in salaries is more reasonable. Although a 3-percent increase exceeds our 2010 and 2011 Price Indices of 0.56 percent and 1.18 percent, we have recently limited salary increases for a water utility to 3 percent.⁴ A 3-percent increase equates to an increase of \$252. Accordingly, we find that salaries shall be reduced by \$1,511.

Pro Forma Bad Debt Expense

In its filing, C.F.A.T. reflected no bad debt expense during the test year. However, it subsequently requested pro forma bad debt expense of \$1,664. We have set bad debt expense using the 3-year average in multiple electric,⁵ gas,⁶ and water and wastewater cases.⁷ We approved a 3-year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining the appropriate level of bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility. Based on the 3-year average calculation, C.F.A.T. shall be entitled to bad debt expense of \$1,546, which we find is representative of the Utility's bad debt expense. As a result, we find that C.F.A.T.'s proposed bad debt expense of \$1,664 shall be decreased by \$118.

⁴ See Order No. PSC-11-0010-SC-WU, pp. 20-21, issued January 3, 2011, in Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

⁵ See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: Application for a rate increase by Tampa Electric Company, pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation, p. 48.

⁶ See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc., p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, pp. 30-31.

⁷ See Order Nos. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, pp. 30-31; PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; pp. 23-24; and PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood, p. 18.

Contractual Billing Expense

In its filings, C.F.A.T. reflected \$7,616 in contractual billing expense. These expenses are from C.F.A.T.'s affiliate-management company, M.I.R.A. International, Inc. (MIRA). MIRA charges contractual billing expense for all services outside the scope of the monthly management fee agreement, such as emergency line repairs. In response to our staff's data request, the Utility provided all invoices for the test year for contractual billing expense which total \$7,753. However, C.F.A.T. stated that \$2,300 of that amount related to its wastewater system and was inadvertently recorded as an expense for its water system. As such, the Utility's total supported contractual billing expense is \$5,453 (\$7,753 - \$2,300). Accordingly, we find that contractual billing expense shall be reduced by \$2,163 (\$7,616 - \$5,453).

Rate Case Expense

C.F.A.T. included rate case expense of \$21,000 in its MFRs. We requested an update of the actual rate case expense incurred, with supporting documentation, as well as an estimate of the amount necessary to complete the case.

Pursuant to Section 367.081(7), F.S., "[t]he Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable." Also, it is a utility's burden to justify its requested costs.⁸ Further, we have broad discretion with respect to allowance of rate case expense. However, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.⁹ As such, we examined the requested actual expenses, supporting documentation, and estimated expenses as listed below for the current rate case. Based on our review, we find several adjustments to the revised rate case expense estimate.

Legal Fees

C.F.A.T. included \$6,000 in its MFRs for legal representation from Rutledge, Ecenia & Purnell. Subsequent to the filing of the MFRs, the Utility submitted actual and estimated rate case expense associated with legal services totaling \$839. These costs related to the Utility's request for a test year approval and an application for qualified representative status. Thus, we approve rate case expense related to legal services of \$839.

Consultant Fees

C.F.A.T. included \$15,000 in its filing for preparation of MFRs, data request responses, and audit facilitation from Tangibl LLC (Tangibl). Based on the Utility's agreement with Tangibl, C.F.A.T. has paid Tangibl a lump sum of \$12,500 for preparing the MFRs in this case. Being a Class C utility, C.F.A.T. could have availed itself to a staff-assisted rate case (SARC). When the Utility requested its test year approval, our staff advised its legal counsel at that time

⁸ See *Florida Power Corp. v. Cresse*, 413 So. 2d 1187, 1191 (Fla. 1982).

⁹ See *Meadowbrook Util. Sys., Inc. v. FPSC*, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), 529 So. 2d 694 (Fla. 1988).

that the Utility was eligible for a SARC. Further, by e-mail dated September 13, 2010, our staff advised Mr. deMenzes that he could apply for a SARC and that the rate case expense/regulatory commission expense associated with a SARC is far less expensive than a file and suspend rate case. Through a telephone discussion, Mr. deMenzes stated he did not wish to seek rate relief through a SARC because he did not like the outcome of the last SARC C.F.A.T. had.

If C.F.A.T. were a Class B utility, we would have no reservation in approving the \$12,500 for MFR preparation by Tangibl because the amount is significantly less than the amount of MFR preparation costs incurred in several recent file and suspend rate cases. In numerous prior SARCs, we have disallowed the consulting fees incurred for a filing a SARC application.¹⁰ Further, because the Utility chose not to take advantage of a SARC, one could argue that all rate case expense associated the MFRs in this case should be disallowed.

While we are cognizant of this compelling argument, we note that there is no statutory requirement that a Class C utility must seek rate relief through a SARC. Moreover, we recognize that pursuant to Section 367.0814 F.S., a utility in a SARC cannot protest our decision if the approved rates generate greater revenues than the utility's existing rates. Given Mr. deMenzes' concerns regarding the outcome of the Utility's last SARC, a file and suspend rate case affords C.F.A.T. the opportunity to protest our PAA decision. Based on the above, we find that \$12,500 incurred to prepare the MFRs is reasonable. Accordingly, rate case expense shall be reduced by \$2,500 (\$15,000 - \$12,500).

Miscellaneous

At one time in this proceeding, the Utility retained Rose, Sundstrom & Bentley, LLP (RSB), as its legal counsel. By letter dated August 27, 2011, RSB filed a Notice of Withdrawal of Counsel and stated that C.F.A.T. will be represented by Mr. deMenzes as a qualified representative.¹¹

In its filing, C.F.A.T. did not include any amount for Mr. deMenzes to process this case as a qualified representative. In response to our data request, the Utility requested \$4,000 (40 hours @ \$100 an hour). In a subsequent response to our data request, C.F.A.T. stated the total hours as a qualified representative were 180 hours (60 weeks @ 3 hours per week) at an hourly rate of \$40 or a total of \$7,200. We note that, in this subsequent response, the Utility requested a lower hourly rate of \$40 instead of the \$100 in its first response. We find that the Utility's revised hourly rate of \$40 is appropriate because it is in line with Mr. deMenzes' total officer

¹⁰ See Order No. PSC-08-0548-PAA-WS, issued August 19, 2008, in Docket No. 070416-WS, In re: Application for staff-assisted rate case in Polk County by Plantation Landings, Ltd.; PSC-08-0496-PAA-WS, issued August 5, 2008, in Docket No. 070417-WS; In re: Application for staff-assisted rate case in Polk County by Anglers Cove West, Ltd.; and PSC-08-0262-PAA-WS, issued April 28, 2008, in Docket No. 070414-WS, In re: Application for staff-assisted rate case in Polk County by Hidden Cove, Ltd. (In these cases, we stated that we do not believe these expenses should be recovered, as the need to file a case can easily be determined by a cursory review of the annual report, and the SARC application was designed so that any regulated utility could easily fill in the required information.)

¹¹ See Order No. PSC-10-0520-FOF-OT, issued August 16, 2010, in Docket No. 100008-OT, In re: Applications for qualified representative status. (By this order, Mr. deMenzes was authorized to appear as qualified representative for C.F.A.T. H2O, Inc. in Docket No. 100126-WU and Tradewinds Utilities, Inc. in Docket No. 100127-WS.)

salary of \$83,200. When dividing \$83,200 by 2,080 typical work hours in a year, it yields an hourly rate of \$40.

The Utility did not provide a breakdown for each task performed and their associated hours as requested in our data request. However, we have first hand knowledge that Mr. deMenzes has assisted our auditors, attended the interim commission conference, attended the customer meeting, and responded to numerous data requests. Because Mr. deMenzes substituted previous legal counsel as a qualified representative, we looked at four recent rate cases that were processed by RSB in order to analyze the reasonableness of the 180 hours requested by the Utility. Based on our calculations of those four rate cases, the actual average hours were approximately 122 hours per case. Due to the lack of detail for its requested costs, we approve recovery of 122 hours at an hourly rate of \$40. This equates to \$4,880 (122 hours @ \$40) resulting in a reduction of \$2,320 (\$7,200 - \$4,880) to the company's request.

In addition, we find that it is appropriate to allow noticing costs. There will be a total of three notices through the PAA portion of this rate case and assuming no protest. Given the number of customers and the total number of pages for these notices, we find that \$524 is a reasonable amount for the noticing requirements for this case. Therefore, we approve miscellaneous rate case expense of \$5,404 (\$4,880 + \$524).

Conclusion

In summary, we find that the Utility's revised rate case expense shall be decreased by \$4,296. The appropriate total rate case expense is \$20,243. A breakdown of rate case expense is as follows:

	MFR B-10 Estimate	Actual & Estimated	Commission Adjustments	Total
Legal Fees	\$6,000	\$839	\$0	\$839
Tangibl LLC	15,000	12,500	0	12,500
PSC Filing Fee	1,500	1,500	0	1,500
Miscellaneous	0	7,200	(1,796)	5,404
Total Rate Case Expense	<u>\$21,000</u>	<u>\$22,039</u>	<u>(\$1,796)</u>	<u>\$20,243</u>
Annual Amortized Amount	<u>\$5,250</u>	<u>\$5,510</u>		<u>\$5,061</u>

Based on Section 367.0816, F.S., the approved annual rate case expense of \$5,061 (\$20,243/4) shall be recovered over four years. This represents an annual rate case expense reduction of \$189 (\$5,250 - \$5,061).

Operating Loss

This is primarily a "fall-out" issue subject to the resolution of other issues related to revenues, operating expenses, and rate base. As shown on Schedule No. 3-A, after applying our

approved adjustments, the Utility's net operating loss is \$13,507. Our adjustments to operating income are shown on Schedule No. 3-B.

Revenue Requirement

The issue is a summary computation that is subject to the resolution of other issues related to rate base and cost of capital, and is primarily a "fall-out" number. The computation of the revenue requirement is shown on Schedule No. 3-A. This results in a revenue requirement of \$75,559, which represents an increase of \$31,980 or 73.38 percent.

Rate Structure

The Utility's current water system rate structure for the residential and general service classes consists of a base facility charge (BFC) and a uniform gallonage charge. The current BFC for 5/8" x 3/4" meter customers is \$9.97 per month and the gallonage charge is \$1.63 per kgal

We performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: (1) allow the Utility to recover its revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement where appropriate water conserving rate structures consistent with our goals and practices.

We evaluated the Utility's customer billing data to determine if an inclining block rate structure was appropriate. Based on our analysis, the customer's monthly overall consumption is 3.287 kgal and there are only 217 residential customers. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-3 kgals, b) 3-6 kgals, and c) all usage in excess of 6 kgals in the second usage block, and usage block rate factors of 0.54, 1.0, and 1.50 respectively.

To further promote a conservation-oriented rate structure and to supply sufficient cash flow for the Utility's fixed costs of approximately 43 percent, we find that setting the BFC at 45 percent is necessary. Currently the Utility's BFC is at 66 percent. Having a lower BFC percentage will allow customer's more control over their bill and will provide the appropriate price signals needed to promote conservation.

These rate structure and its resulting bills is shown on the following table.

C.F.A.T. H2O, INC. COMMISSION APPROVED AND ALTERNATIVE RATE STRUCTURES FOR TYPICAL RESIDENTIAL CUSTOMERS ON 5/8" x 3/4" METERS POST-REPRESSION ANALYSIS			
Current Rate Structure and Rates		Approved	
BFC/uniform gallonage charge rate Structure BFC = 66 percent		Three-tiered inclining-blocks – consumption of 0-3 kgals, 3-6 kgals and 6+ kgals; rate factors at 0.54, 1.00 and 1.50; BFC = 45.00 percent	
BFC	\$9.97	BFC	\$11.62
Gallonage Charge, all kgals	\$1.63	0-3 kgals	\$3.96
		3-6 kgals	\$7.34
		In excess of 6 kgals	\$11.01
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$9.97	0	\$11.62
1	\$11.60	1	\$15.58
3	\$14.86	3	\$23.49
5	\$18.12	5	\$38.17
10	\$26.27	10	\$89.56
15	\$34.42	15	\$144.62
20	\$42.57	20	\$199.68
25	\$50.72	25	\$254.74
30	\$58.87	30	\$309.80

The traditional BFC/uniform gallonage charge rate structure has been our water rate structure of choice for general service customer classes. The uniform gallonage charge shall be calculated by dividing the total revenues to be recovered through the gallonage charge by the total number of gallons attributable to all rate classes. This shall be the same methodology used to determine the general service gallonage charge in this case. With this methodology, the general service customers would continue to pay their fair share of the cost of service.

Based on the foregoing, the appropriate rate structure for the water system’s residential class is a three-tier inclining-block rate structure. As discussed below, by restricting any cost recovery due to repression being applied to non-discretionary usage, an additional tier is necessary for non-discretionary usage below 3 kgals per month. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-3 kgals, b) 3-6 kgals, c) all usage in excess of 6 kgals in the second usage block, and usage block rate factors of 0.54, 1.00, and 1.50 respectively. The appropriate rate structure for the water system’s nonresidential classes is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system shall be set at 45 percent.

Repression Adjustment

We have conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed that about 38 percent of the residential bills rendered during the test year were for consumption levels below 1 kgal per month. This analysis also showed that average residential consumption per customer was 3.287 kgal per month.

Using the database of utilities that have previously had repression adjustments made, we calculated a repression adjustment for this Utility based upon the approved increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that we approved in prior cases.¹² This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption (consumption less than 3 kgal per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption above 3 kgal per month).

Therefore, based on this methodology, our calculated test year residential consumption for this Utility shall be reduced by 1,725 kgal, purchased power expense shall be reduced by \$482, chemical expense shall be reduced by \$223, and RAFs shall be reduced by \$33. The final post-repression revenue requirement shall be \$74,820. In order to monitor the effect of the rate changes, the Utility shall file reports detailing the number of bills rendered, the consumption billed, and the revenues billed on a monthly basis. In addition, the reports shall be prepared by customer class, usage block, and meter size. The reports shall be filed with the Commission, on a semi-annual basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision.

Water Rates

The appropriate post-repression revenue requirement, excluding miscellaneous service charges, is \$74,820. As discussed above, we find that the appropriate rate structure for the water system's residential class is a continuation of the Utility's BFC/uniform gallonage charge. The BFC cost recovery percentage shall be set at 45 percent. We find a continuation of the traditional BFC/uniform gallonage charge rate structure shall be applied to the general service rate class as well. As discussed above, we find that a repression adjustment shall be made. Applying these rate designs and repression adjustments to the approved pre-repression revenue

¹² See Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; Order No. PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; Order No. PSC-10-0117-PAA-WU, issued February 26, 2010, in Docket No. 080695-WU, In re: Application for general rate increase by Peoples Water Service Company of Florida, Inc.; Order No. PSC-09-0623-PAA-WS, issued September 15, 2009, in Docket No. 080597-WS, In re: Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.

requirements results in the final rates contained in Schedule No. 4. These rates are designed to recover a post-repression revenue requirement of \$74,820.

The Utility shall file revised water tariff sheets and a proposed customer notice to reflect our approved rates for the water system. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than ten days of the date of the notice.

Miscellaneous Service Charges

The Utility believes that its miscellaneous service charges should be updated to reflect current costs. We agree with this request. As a follow up to our discovery, C.F.A.T. provided the cost estimates for the expenses associated with initial connection, normal reconnection, violation reconnection, and premises visit fees during business hours and after hours. These cost justifications included \$16 for transportation expense for each service, \$30 per hour clerk labor (\$45 after hours), and \$8 of overhead for each service. The after hours charges are based on a factor of 1.5 times the business hours charges rounded down to the nearest whole dollar to reflect the cost of overtime associated with after hours services. The cost justifications ranged between \$56 and \$71. While we believe the cost justifications are excessive, the proposed charges shown in C.F.A.T.'s MFRs are reasonable and lower than fees we approved for other utilities.¹³

Therefore, we find that C.F.A.T. shall be allowed to implement initial connection fee for work performed during business hours of \$11 and after business hours of \$16, and normal reconnection fees for work performed during business hours of \$16 and after business hours of \$24. Also, C.F.A.T. shall be allowed to implement a violation reconnection fee of \$21 during business hours and \$31 after business hours, and premises visit fee for work performed during business hours of \$16. C.F.A.T. shall be allowed to implement the requested MFR charges because the increased charges are reasonable and lower than charges approved in our prior decisions.¹⁴ The Utility shall file a proposed customer notice to reflect our approved charges. The approved charges shall be effective for service rendered on or after the stamped approval date of the revised tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by our staff. Within ten days of the date the order is final, the Utility shall be required to provide notice of the tariff changes to all customers. C.F.A.T. shall provide proof the customers have received notice within ten days of the date the notice was sent. Below is a breakdown of the Utility's current and approved miscellaneous service charges:

¹³ See Order Nos. PSC-08-0827-PAA-WS, issued December 22, 2008, in Docket No. 070694-WS, In re: Application for increase in water and wastewater rates in Orange County by Wedgefield Utilities, Inc. and PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company

¹⁴ Ibid.

	<u>Current Charges</u>		<u>Approved</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$10	\$12	\$11	\$16
Normal Reconnection	\$15	\$20	\$16	\$24
Violation Reconnection	\$20	\$25	\$21	\$31
Premises Visit	\$15	N/A	\$16	N/A

Interim Refund

By Order No. PSC-10-0739-PCO-WU, we authorized the collection of interim water rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement is \$86,882 for water which represents an increase of \$42,792 or 97.06 percent.

According to Section 367.082, F.S., any refund shall be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect shall be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for the establishment of interim and final rates is the 12-month period ended December 31, 2009. C.F.A.T.'s approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, the \$86,882 water revenue requirement granted in Order No. PSC-10-0739-PCO-WU for the interim test year is greater than the revenue requirement for the interim collection period of \$70,260. This results in a 19.13 percent refund of interim rates, after miscellaneous revenues have been removed. The Utility shall refund 19.13 percent of the water revenues collected under interim rates. The refund shall be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility shall submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the escrow account shall be released upon our staff's verification that the required refunds have been made.

Four-Year Rate ReductionSection 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is \$5,338. The decreased revenue will result in the rate reduction approved by us on Schedule No. 4.

The Utility shall be required to file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. C.F.A.T. shall provide proof of the date notice was given within 10 days of the date of the notice.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

Proof of Adjustments

To ensure that the Utility adjusts its books in accordance with our decision, C.F.A.T. shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increased water rates of C.F.A.T. H2O, Inc. is approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this order is hereby approved in every respect. It is further

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. It is further

ORDERED that C.F.A.T. H2O, Inc. is hereby authorized to charge the new rates and charges as set forth herein and as approved in the body of this Order. It is further

ORDERED that C.F.A.T. H2O, Inc. shall file revised water tariff sheets and a proposed customer notice to reflect the approved water rates shown on Schedule 4. It is further

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with the Order and the customer notice is adequate. It is further

ORDERED that the approved water rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers as set forth in the body of this Order. It is further

ORDERED that C.F.A.T. H2O, Inc. shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that the Utility's request to revise and increase its miscellaneous service charges is approved as set forth in the body of this Order. It is further

ORDERED that C.F.A.T. H2O, Inc. shall refund 19.13 percent of water revenues collected under interim rates. It is further

ORDERED that the refunds shall be made with interest in accordance with Rule 25-30.360(4), F.A.C., and the Utility shall submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. It is further

ORDERED that the Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C., and the escrow account shall be released upon staff's verification that the required refunds have been made. It is further

ORDERED that the water rates shall be reduced as shown on Schedule No. 4 to remove rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. It is further

ORDERED that if the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. It is further

ORDERED the Utility shall file reports detailing the number of bills rendered, the consumption billed, and the revenues billed on a monthly basis. In addition, the reports shall be prepared by customer class, usage block, and meter size. The reports shall be filed with the Commission, on a semi-annual basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that C.F.A.T. H2O, Inc. shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final if no timely protest is filed by a substantially affected person within 21 days and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, the docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by Commission staff, and that the interim refund has been completed and verified by Commission staff. Once these actions are complete, this docket shall be closed administratively, and the corporate undertaking shall be released.

By ORDER of the Florida Public Service Commission this 31st day of August, 2011.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

KY

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice shall not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action, except for the actions ordering the refund of interim rates, approving a four-year rate reduction, and the proof of compliance requirement, are preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 21, 2011. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

C.F.A.T. H2O, Inc. Schedule of Water Rate Base Test Year Ended 12/31/09			Schedule No. 1-A Docket No. 100126-WU		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$537,632	\$0	\$537,632	(\$25,880)	\$511,752
2 Land and Land Rights	19,500	0	19,500	0	19,500
3 Non-used and Useful Components	0	0	0	(73,770)	(73,770)
4 Accumulated Depreciation	(127,972)	0	(127,972)	24,247	(103,725)
5 CIAC	(114,421)	0	(114,421)	(10,512)	(124,933)
6 Amortization of CIAC	55,292	0	55,292	(756)	54,536
7 Acquisition Adjustment	46,269	(46,269)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>5,909</u>	<u>5,909</u>	<u>(855)</u>	<u>5,054</u>
9 Rate Base	<u>\$416,300</u>	<u>(\$40,360)</u>	<u>\$375,940</u>	<u>(\$87,526)</u>	<u>\$288,414</u>

Explanation	Water
<p><u>Plant In Service</u> Agreed upon Audit Adjustments.</p>	<p><u>(\$25,880)</u></p>
<p><u>Non-used and Useful</u> To reflect net non-used and useful adjustment.</p>	<p><u>(\$73,770)</u></p>
<p><u>Accumulated Depreciation</u> Agreed upon Audit Adjustments.</p>	<p><u>\$24,247</u></p>
<p><u>CIAC</u> Agreed upon Audit Adjustments.</p>	<p><u>(\$10,512)</u></p>
<p><u>Accumulated Amortization of CIAC</u> Agreed upon Audit Adjustments.</p>	<p><u>(\$756)</u></p>
<p><u>Working Capital</u> Reflect appropriate working capital allowance.</p>	<p><u>(\$855)</u></p>

C.F.A.T. H20, Inc.						Schedule No. 2		
Capital Structure-Simple Average						Docket No. 100126-WU		
Test Year Ended 12/31/09								
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$388,880	\$0	\$388,880	(\$140,893)	\$247,987	65.96%	5.69%	3.75%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	127,483	0	127,483	(46,188)	81,295	21.62%	10.85%	2.35%
5 Customer Deposits	18,167	0	18,167	(6,582)	11,585	3.08%	6.00%	0.18%
6 Shareholder Loan	<u>55,000</u>	<u>0</u>	<u>55,000</u>	<u>(19,927)</u>	<u>35,073</u>	<u>9.33%</u>	0.00%	<u>0.00%</u>
7 Total Capital	<u>\$589,530</u>	<u>\$0</u>	<u>\$589,530</u>	<u>(\$213,590)</u>	<u>\$375,940</u>	<u>100.00%</u>		<u>6.28%</u>
Per Commission								
8 Long-term Debt	\$388,880	(\$3,200)	\$385,680	(\$125,822)	\$259,858	90.10%	5.69%	5.13%
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	127,483	(112,064)	15,419	(5,030)	10,389	3.60%	11.16%	0.40%
12 Customer Deposits	18,167	0	18,167	0	18,167	6.30%	6.00%	0.38%
13 Shareholder Loan	<u>55,000</u>	<u>(55,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
14 Total Capital	<u>\$589,530</u>	<u>(\$170,264)</u>	<u>\$419,266</u>	<u>(\$130,852)</u>	<u>\$288,414</u>	<u>100.00%</u>		<u>5.91%</u>
						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>5.87%</u>	<u>5.94%</u>	

C.F.A.T. H2O, Inc.						Schedule No. 3-A	
Statement of Water Operations						Docket No. 100126-WU	
Test Year Ended 12/31/09							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$43,579</u>	<u>\$51,500</u>	<u>\$95,079</u>	<u>(\$51,500)</u>	<u>\$43,579</u>	<u>\$31,980</u> 73.38%	<u>\$75,559</u>
Operating Expenses							
2 Operation & Maintenance	\$38,235	\$9,037	\$47,272	(\$6,843)	\$40,429		\$40,429
3 Depreciation	18,923	0	18,923	(5,055)	13,868		13,868
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	2,957	2,318	5,275	(2,487)	2,788	1,439	4,227
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>60,115</u>	<u>11,355</u>	<u>71,470</u>	<u>(14,384)</u>	<u>57,086</u>	<u>1,439</u>	<u>58,525</u>
8 Operating Income	<u>(\$16,536)</u>	<u>\$40,145</u>	<u>\$23,609</u>	<u>(\$37,116)</u>	<u>(\$13,507)</u>	<u>\$30,541</u>	<u>\$17,035</u>
9 Rate Base	<u>\$416,300</u>		<u>\$375,940</u>		<u>\$288,414</u>		<u>\$288,414</u>
10 Rate of Return	<u>-3.97%</u>		<u>6.28%</u>		<u>-4.68%</u>		<u>5.91%</u>

C.F.A.T. H2O, Inc. Adjustment to Operating Income Test Year Ended 12/31/09	Schedule No. 3-B Docket No. 100126-WU
Explanation	Water
<u>Operating Revenues</u>	
Remove requested final revenue increase.	<u>(\$51,500)</u>
<u>Operation and Maintenance Expense</u>	
1 Agreed upon-audit adjustments.	(\$2,862)
2 Reflect appropriate Pro Forma Salary.	(1,511)
3 Reflect appropriate Pro Forma Bad Debt Expense.	(118)
4 To reflect appropriate allocated costs.	(2,163)
5 Reflect appropriate rate case expense.	(189)
Total	<u>(\$6,843)</u>
<u>Depreciation Expense - Net</u>	
Remove net depreciation on non-U&U adjustment above.	<u>(\$5,055)</u>
<u>Taxes Other Than Income</u>	
1 RAFs on revenue adjustments above.	(\$2,318)
2 Remove property taxes on non-U&U adjustment above.	(169)
Total	<u>(\$2,487)</u>

C.F.A.T. H2O, Inc.		Schedule No. 4			
Water Monthly Service Rates		Docket No. 100126-WU			
Test Year Ended 12/31/09					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	Four- Year Rate Reductio n
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$9.97	\$19.65	\$21.48	\$11.62	\$0.82
Gallonage Charge - Per 1,000gallons	\$1.63	\$3.21	\$3.51		
Gallonage Charge 0-3kgals				\$3.96	\$0.28
Gallonage Charge 3-6kgals				\$7.34	\$0.52
Gallonage Charge 6kgals+				\$11.01	\$0.78
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$9.97	\$19.65	\$21.48	\$11.62	\$0.82
1"	\$24.93	\$49.13	\$53.77	\$29.05	\$2.05
1-1/2"	\$49.86	\$98.25	\$107.42	\$58.10	\$4.10
2"	\$79.78	\$157.21	\$171.89	\$92.96	\$6.57
3"	\$159.58	\$314.46	\$343.80	\$185.92	\$13.14
4"	\$249.33	\$491.32	\$519.73	\$290.50	\$20.52
Gallonage Charge, per 1,000 Gallons	\$1.63	\$3.21	\$3.51	\$5.49	\$0.39
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$14.86	\$29.28	\$32.01	\$23.49	
5,000 Gallons	\$18.12	\$35.71	\$39.03	\$38.17	
10,000 Gallons	\$26.27	\$51.77	\$56.58	\$89.56	